

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications) Docket No. MC96-3

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS W. ASHLEY LYONS
(OCA/USPS-T1-27-33)
(August 9, 1996)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA Interrogatories 1-4 to the United States Postal Service dated June 19, 1996, are hereby incorporated by reference.

Respectfully submitted,

Gail Willette

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Director

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OCA/USPS-T1-27. In Docket No. MC95-1, during oral cross-examination, Postal Service witness Schmalensee stated,

In a world where information is difficult and expensive, one might want to know the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices, and that might be a sufficient and rational ground for decision-making.

Tr. 33/15083.

- a. In developing rates for Docket No. MC96-3, did the Postal Service determine "the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices" ?
- b. If your response to part (a) of this interrogatory is affirmative, provide copies of all Ramsey pricing data and alternative prices used in developing pricing proposals for Docket No. MC96-3. Include in your response cites to all sources used and a copy of all source documents referenced but not previously filed.
- c. If your response to part (a) of this interrogatory is negative, please explain how the Postal Service determined that it had sufficient and rational grounds for the pricing decisions made in this filing.

OCA/USPS-T1-28. Witness Needham's response to OCA/USPS-T7-23 states, "[T]he Postal Service believes that it is more practical and economically efficient to increase the fees to cover costs (except for proposed Group E)." Are the proposed post office box rates allocatively efficient? Please fully explain why the rates are or are not allocatively efficient.

OCA/USPS-T1-29. In his Docket No. R94-1 testimony, Postal Service witness Foster stated,

There are generally two ways of examining value of service -- the intrinsic value and the economic value. Intrinsic value considers actual levels and features of services which are indicated by factors such as service standards, Economic value involves customer perception of the worth of the service and depends not on intrinsic value of the service in question in isolation, but also on the range of alternatives available.

Docket No. R94-1, USPS-T-11 at 17-18.

Economic value of service, as measured by relative elasticities of demand, can be used in a quantitative way through the application of Ramsey pricing models. Though Ramsey pricing is not used in a formal sense to determine the rates proposed here, the cost coverages for First-Class Mail letters and third-class bulk regular rate mail which result from across-the-board rate increases are more in accord with Ramsey pricing principles than were the cost coverages in recent Commission recommended decisions. The need to move in this direction was a central theme in a 1992 GAO report, entitled "U.S. Postal Service: Pricing Postal Services in a Competitive Environment." [Footnote omitted.] Moving price relationships in a direction which focuses on economic value of service places

greater emphasis on customer perceptions than had previously been the case.

Id. at 1946.

At page 1 of your testimony, you state,

This filing is one of several recent cases initiated by the Postal Service that represent a move toward more demand-oriented ratemaking within the context of the Postal Service's operational, financial, and other policy goals.

- a. In MC96-3, is the Postal Service moving toward Ramsey pricing?
- b. If your response to part (a) of this interrogatory is affirmative, and given that Ramsey pricing models use relative elasticities of demand to determine the economic value of service, please explain how the Postal Service developed the current pricing proposals when elasticities of demand were not prepared for MC96-3.
- c. If you respond negatively to part (a) of this interrogatory, is the Postal Service changing its position on efficient pricing? If so, please explain why the Postal Service changed its previously articulated position on efficient pricing.

OCA/USPS-T1-30. The following refers to your response to

OCA/USPS-T1-22. Please explain what postal card printing costs

declined such that you were able to recognize a \$65,000 cost reduction. Show the derivation of all calculated numbers, cite all sources, and provide copies of all source documents not previously filed.

OCA/USPS-T1-31. In USPS-T-8 at 109, witness Needham states, "[P]ostal cards offer an ideal medium for automated printing and addressing." Are postal cards more likely to be automation compatible than post cards? Please explain your response.

OCA/USPS-T1-32. In MC95-1, Postal Service witness McBride states, USPS-T-1 at 17,

The effects of the imbalance in institutional cost burden between the efficient and less efficient components of the subclasses are exacerbated by the fact that efficient mail tends to be more price sensitive. This greater price sensitivity stems from the fact that efficient mailers in all classes tend to have more non-postal options open to them in the market place.

- a. Assume postal cards are more automation compatible than post cards and thus more efficiently processed by the Postal Service, please explain why increasing the effective postal card rate from \$0.20 to \$0.22 would not result in an imbalance in the institutional cost burden between the efficient and less efficient cost components.

- b. Please explain why charging the \$0.02 fee for a postal card would not drive postal customers to other alternatives such as post cards which cost the Postal Service more to process.

OCA/USPS-T1-33. In the Postal Service's pamphlet "Max It," Postmaster General Runyon is quoted as saying, "If it costs less for the Postal Service to process and deliver, it should cost less for you to mail." See attachment. Given Postmaster General Runyon's statement, please explain why the Postal Service is raising the effective mailing rate for postal cards, which are less costly to process and deliver, as opposed to post cards, which are more costly to process and deliver.

First-Class Mail® Rate Comparison Chart

Minimum volume for presort and automation rates is 500 pieces.

Letters and Sealed Parcels (First ounce)	Before	After
Single-Piece	32.0¢	32.0¢
Presort	27.4	29.5
Automation		
Basic	n/a	26.1
3-Digit Barcoded	26.4	25.4
5-Digit Barcoded	25.8	23.8
Carrier Route	n/a	23.0
Flats (First ounce)	Before	After
Single-Piece	32.0	32.0
Presort	27.4	29.5
Automation		
Basic	n/a	29.0
3-5	25.8	27.0
Postcards and Postal Cards	Before	After
Single-Piece	20.0	20.0
Presort	17.9	18.0
Automation		
Basic	18.6	16.6
3-Digit Barcoded	17.0	15.9
5-Digit Barcoded	16.3	14.3
Carrier Route	16.0	14.0

Standard Mail Rate Comparison Chart

Minimum volume is 200 pieces.

Letter Size	Before	After
Regular		
Basic	22.6¢	25.6¢
3/5 Digit	18.8	20.9
Automated Basic (barcoded)	20.4	18.3
Automated 3-Digit (barcoded)	17.5	17.5
Automated 5-Digit (barcoded)	16.6	15.5
Automated 5-Digit at SCF entry (barcoded letter)	14.6	13.7
Enhanced Carrier Route (new)		
Basic	15.0	15.0
Automated Basic Carrier Route (barcoded letter)	n/a	14.6
High Density	n/a	14.2
Saturation	14.2	13.3
Saturation at Delivery Unit Entry	11.7	11.0
Flats Size	Before	After
Regular		
Basic	26.6	30.6
3/5 Digit	21.4	22.5
Automated Basic (barcoded)	23.7	27.7
Automated 3/5 Digit (barcoded)	19.5	18.9
Automated 3/5 Digit at SCF entry (barcoded)	17.5	17.1
Enhanced Carrier Route (new)		
Basic	16.2	15.5
High Density	15.7	14.7
Saturation	14.5	13.7
Saturation at Delivery Unit Entry	12.0	11.4

Periodicals Mail Rate Comparison Chart

Letters			
Before Classification Reform	After Classification Reform	Before	After
Level A Basic	Basic Nonautomation	23.2¢	24.0¢
Level A ZIP+4® Letter	n/a	22.2	n/a
Level A ZIP+4 Barcoded Letter	Automation Letter	21.0	19.4
Level B3 Basic	3/5 Nonautomation	18.3	20.2
Level B3 ZIP+4 Letter	n/a	17.8	n/a
Level B3 Barcoded Letter	3/5 Automation Letter	17.0	17.3
Level B5 Basic	3/5 Nonautomation	18.3	20.2
Level B5 ZIP+4 Letter	n/a	17.8	n/a
Level B5 Barcoded Letter	3/5 Automation Letter	16.1	17.3
Level C1 (Carrier Route)	Carrier Route	13.9	11.9
Level C2 (High Density)	High Density	13.3	11.1
Level C3 (Saturation)	Saturation	12.2	9.5
Flats (Piece rates)			
Before Classification Reform	After Classification Reform	Before	After
Level A ZIP+4 Barcoded Flats	Automation Flat	20.6	20.9
Level B3 ZIP+4 Barcoded Flats	3/5 Automation Flat	16.6	17.5
Level B5 ZIP+4 Barcoded Flats	3/5 Automation Flat	16.6	17.5



"If it costs less for the Postal Service to process and deliver, it cost less for you to mail."

Marvin Runyon
Postmaster General, CEO
United States Postal Service

Introducing Classification Reform. It's the embodiment of the Postal Service philosophy quoted above. And it offers a menu of preparation options to make your business mail a better value than ever. They're available on the letters, cards, flat mail and publications that make up selected subclasses within First, Periodicals and Standard Mail classifications.

Max It!

When you *Max It*, you take full advantage of the new value in business mail. How? By preparing mail to allow us to make maximum use of our highly efficient automation equipment. In return, you get the chance to earn deeper discounts on your mailings.

Reinvestment for growth.

When you *Max It*, your most immediate benefit is a savings on postage costs. And it makes good business sense to reinvest the money you save in improving your overall mailing operation.

For example, you could upgrade mailing equipment to heighten efficiency — and lead to even further savings in time and money. Or you could send additional Advertising Mail without increasing your budget. Maybe both.

What specifically can it do for your business?

Classification Reform was developed to bring you these specific benefits:

A chance to earn deeper discounts by barcoding mail

More reliable delivery as a result of more efficient processing

More descriptive names for mail classifications

Anticipated help in stabilizing rates for single-piece as well as bulk mail

Continuing viability of the Postal Service as a valuable partner of the American business community

*"Now it's either
First-Class,
Periodicals or
Standard Mail."*

What's behind Classification Reform?

The Postal Service is determined to provide the finest range of communications products and services to every American. That's why we continually invest in advanced technology to make us even more competitive in the marketplace.

For example, the Postal Service will have installed automated equipment worth a total \$3.6 billion by the end of this year. These machines reduce our manual labor processing costs. So we're encouraging customers to send as much automated mail as possible — in return for shared cost savings.

Why it's mailer-friendly.

We asked what you needed — then formed Advisory Groups of mailers, equipment vendors and association representatives to recommend the best ways for us to deliver your needs.

The results are impressive. The postage savings Classification Reform offers can be an important source of revenue for our customers to reinvest in more mailings or new equipment.

The more you prep, the more you save.

If you're already barcoding your mail, it will be quite simple to convert to the new procedures. If not, you may have to make a relatively modest investment in equipment. But it can pay for itself in lower postage costs and maximized mailing efficiencies.

The basic principle of Classification Reform is that, if you prepare your business mail in ways that bypass several handling steps, we'll reciprocate with lower postage rates. And as a rule of thumb, "the more you prep, the more you save."

Addressing correctly and properly will also help us cut the amount of mail that's undeliverable as addressed (UAA), which is costly and inefficient for the Postal Service and its customers.

Simple changes.

Most business mail will now fit one of these three classifications. Their names are brief, efficient and descriptive:

☐ First-Class Mail®

☐ Periodicals — formerly second-class mail

☐ Sta

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.


SHELLEY DREIFUSS
Attorney

Washington, DC 20268-0001
August 9, 1996